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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

THE OUTLOOK FOR RECOVERY

THE current recession showed itself very early in residential construction and only began reaching the whole economy in the second quarter of last year. Business activity according to the Cleveland Trust Company is now .6 percent below normal. Gross National Product, or GNP, charted on page 124, is the money value of all goods and services sold for final consumption in the United States. During the second quarter of 1960, GNP reached $505 billion only to level off at $503.5 billion in the second half of the year.

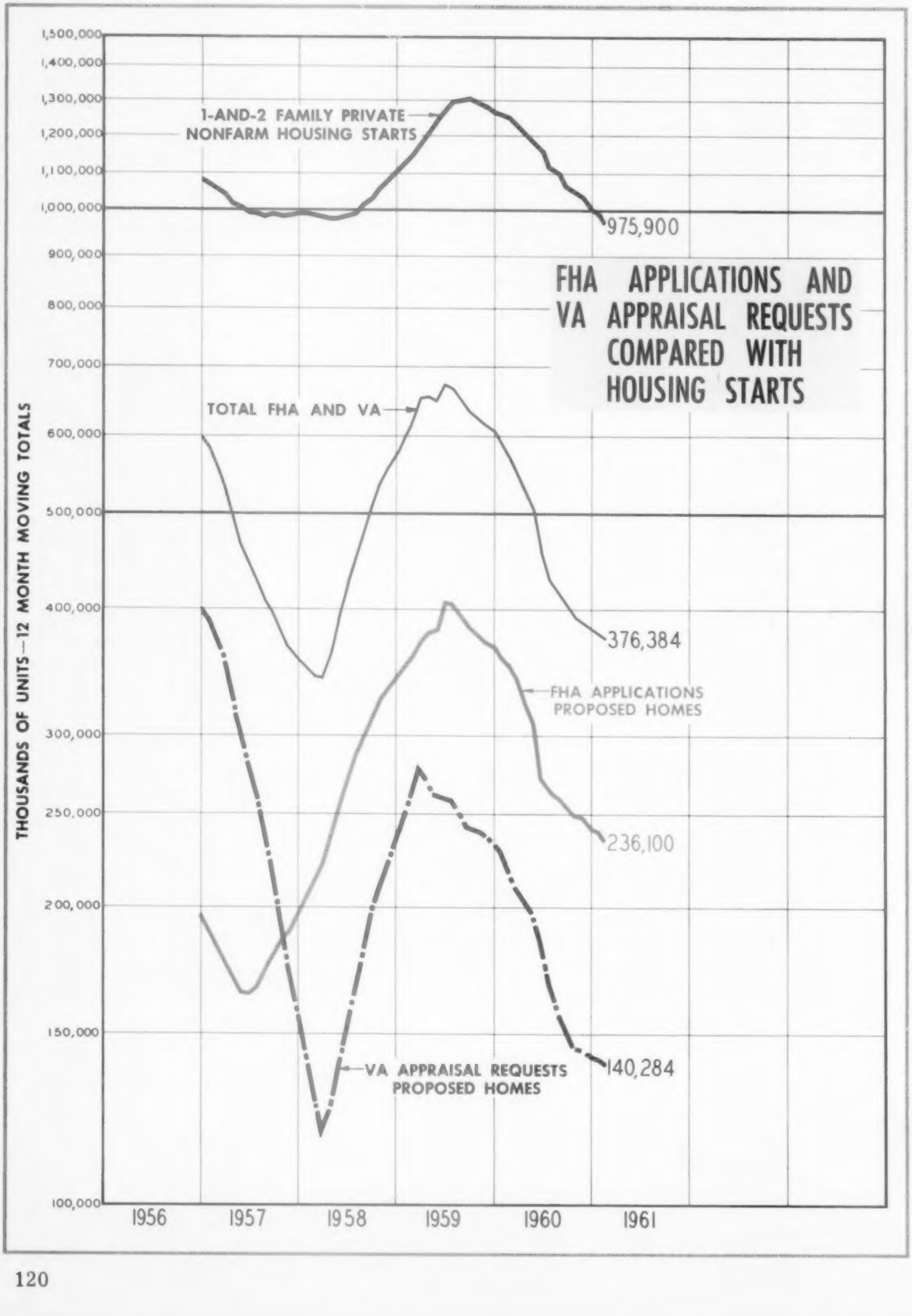
Most people have a difficult time imagining what $500 billion represents or what it means to the economy to see a decline of $1.5 billion in this amount. The percent of the work force unemployed is readily grasped by everyone. The chart on page 124 shows that unemployment (seasonally adjusted) is now 6.8 percent. The consensus of opinion, if there can be one, seems to be that under normal circumstances about 3 to 5 percent of the work force will be unemployed. These are the persons transferring from one job to another or first entering the work force. Currently, fewer persons are unemployed proportionately than were unemployed during the 1957-58 recession. Up to this time this has been a very mild recession, except in residential construction.

In this market the story has been entirely different. According to our chart on page 120 the 12-month moving total of 1- and 2-family dwellings started has been falling since October 1959, about 3 months before other indicators began falling. It is still declining.

A mechanical approach would say that FHA applications for insurance and VA appraisal requests should be good indicators of an upturn in housing starts. That is because the requests and applications precede FHA- and VA-inspected starts by about 3-4 months. To date these have still shown no sign of recovery. The timing for the 12-month moving totals of each of these figures is as follows:

	Turned Up	Turned Down
FHA applications	June 1957	July 1959
VA appraisal requests	Apr. 1958	Apr. 1959
1- and 2-family housing starts	May 1958	Oct. 1959

We are not interested in post mortems at this point. When will the recovery come? It has already started working. Let's look at some of the reasons.



FHA APPLICATIONS AND VA APPRAISAL REQUESTS COMPARED WITH HOUSING STARTS
1-AND-2 FAMILY PRIVATE NONFARM HOUSING STARTS
975,900
TOTAL FHA AND VA
376,384
FHA APPLICATIONS PROPOSED HOMES
236,100
VA APPRAISAL REQUESTS PROPOSED HOMES
140,284
THOUSANDS OF UNITS—12 MONTH MOVING TOTALS
1,500,000
1,400,000
1,300,000
1,200,000
1,100,000
1,000,000
900,000
800,000
700,000
600,000
500,000
400,000
300,000
250,000
200,000
150,000
100,000
1956
1957
1958
1959
1960
1961

Housing demand is dependent upon its price, family incomes, borrowing terms, interest rates, and population and household growth. Look at it this way. There is a certain amount of housing that the population would like in any year. If it is greater than what is available, new construction will take place. If it is less than what is available, vacancies will rise, and new construction will fall off. Since the purchase of a house is postponable, consumer confidence about the future is perhaps the most important factor in the short-run outlook for the demand for housing. Even if prices and other factors encourage demand, a decrease in consumer confidence could offset these factors so that the increase in demand would be postponed for a while.

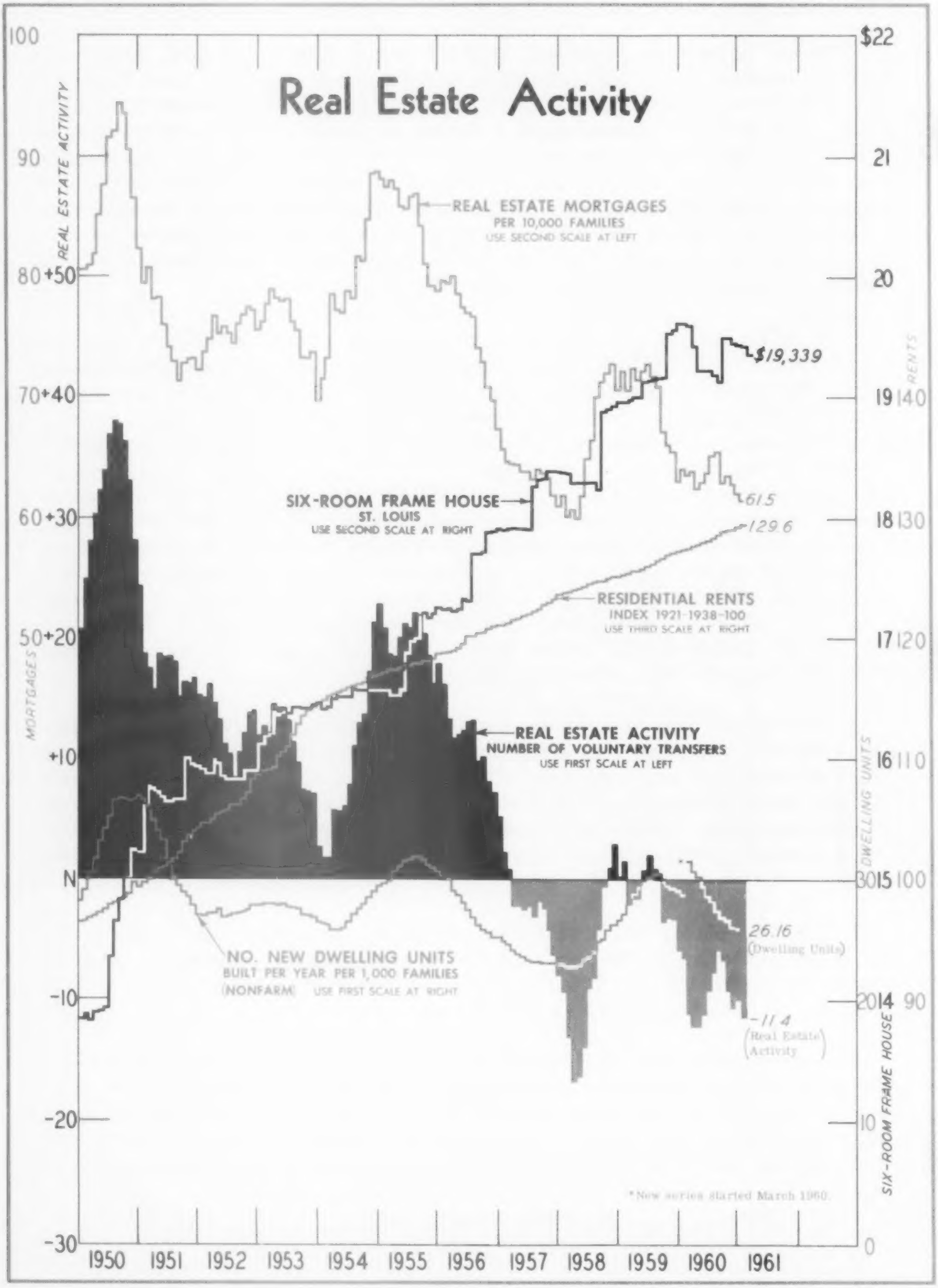
Real estate prices of existing houses reached a peak of 130.8 in July and August of 1960 and have declined since then. The cost of a six-room frame house new reached a peak in February 1960 of $19,609, and in spite of increased labor costs has continued down to a level of $19,339. This 1 percent decline in price, according to a recent study, should increase the quantity demanded of total housing about 1 percent, if all other things remain equal. Since new starts are about 2 percent of the total amount of housing, this would mean an increase of 50 percent in new construction. Only about a third of this would be constructed during the year of the decline in price. Of course, other things do not remain equal. As we said before, a lack of consumer confidence could offset such an influence. Incomes of the average family, if anything, have fallen slightly. Population, however, continues to increase. There are 182,257,000 people in the United States. This is about 1 percent more than were here in April 1960, when the Census was taken.

Most news items, then, show automatic adjustments are already underway. Interest rates on real estate mortgages, however, increased again to 6.226 percent (see chart on page 126). Since this is an average of recorded interest rates, it lags the current market rate by 2 to 6 months, and therefore reflects the tone of the market during the fall. Mortgage money is more available and should begin to force interest rates down somewhat, if it has not already.

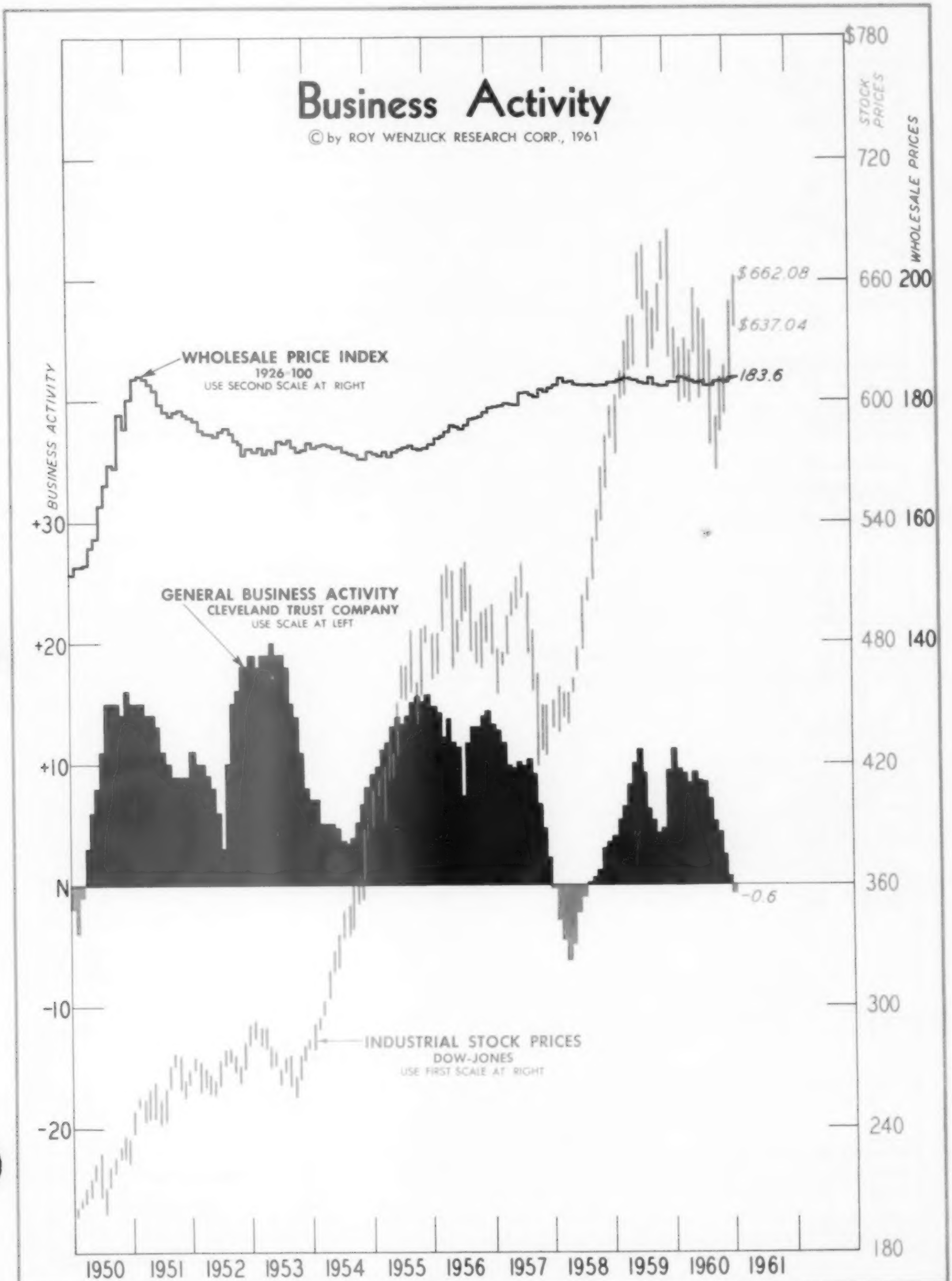
In the first place, the lower level of housing starts and real estate sales has meant a decline, in the demand for mortgage loans. Mortgage activity, charted on pages 122 and 126, is now 61.5 recorded mortgages per 10,000 families. This is 4 percent less than it was a year ago.

The government may try to take credit for lowering the interest rate on mortgages because it lowered the ceiling on FHA-insured mortgages to $5\frac{1}{2}$ percent and has tried to use moral suasion on the savings and loan associations to lower dividend and loan rates. These actions, however, would be ineffective unless the market had already been easy and receptive to decreases in interest rates.

(cont. on page 125)



Real Estate Activity
REAL ESTATE MORTGAGES
PER 10,000 FAMILIES
USE SECOND SCALE AT LEFT
SIX-ROOM FRAME HOUSE
ST. LOUIS
USE SECOND SCALE AT RIGHT
$19,339
61.5
129.6
RESIDENTIAL RENTS
INDEX 1921-1938=100
USE THIRD SCALE AT RIGHT
REAL ESTATE ACTIVITY
NUMBER OF VOLUNTARY TRANSFERS
USE FIRST SCALE AT LEFT
NO. NEW DWELLING UNITS
BUILT PER YEAR PER 1,000 FAMILIES
(NONFARM) USE FIRST SCALE AT RIGHT
26.16
(Dwelling Units)
-11.4
(Real Estate Activity)
*New series started March 1960.
REAL ESTATE ACTIVITY
MORTGAGES
RENTS
DWELLING UNITS
SIX-ROOM FRAME HOUSE
100
90
80 +50
70 +40
60 +30
50 +20
+10
N
-10
-20
-30
$22
21
20
19 140
18 130
17 120
16 110
30 15 100
20 14 90
10
0
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959
1960
1961


Business Activity
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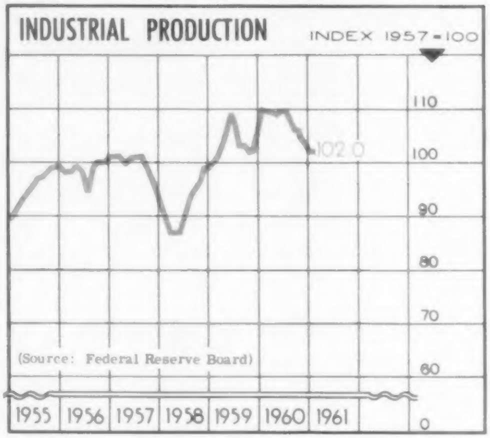
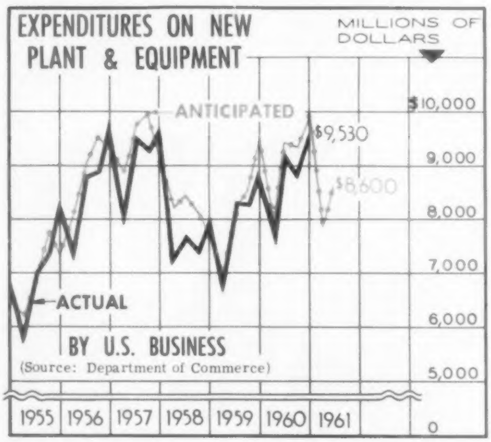
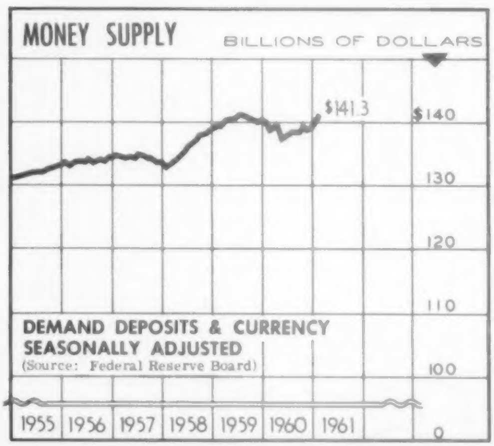
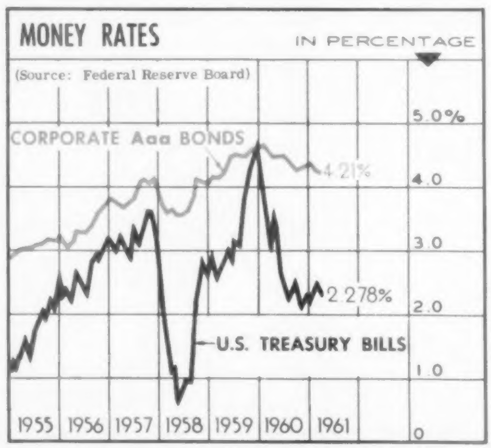
BUSINESS ACTIVITY
STOCK PRICES
WHOLESALE PRICES
WHOLESALE PRICE INDEX
1926=100
USE SECOND SCALE AT RIGHT
GENERAL BUSINESS ACTIVITY
CLEVELAND TRUST COMPANY
USE SCALE AT LEFT
INDUSTRIAL STOCK PRICES
DOW-JONES
USE FIRST SCALE AT RIGHT
$662.08
$637.04
183.6
-0.6
+30
+20
+10
N
-10
-20
$780
720
660 200
600 180
540 160
480 140
420
360
300
240
180
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959
1960
1961

ECONOMIC INDICATORS









(cont. from page 121)

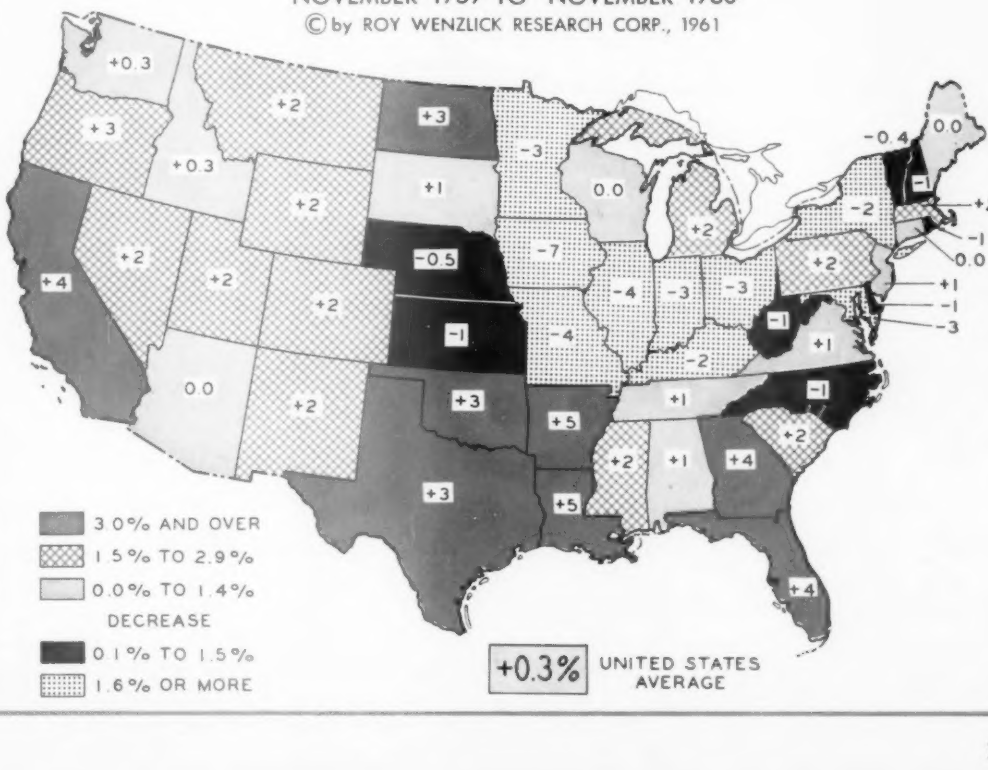
Federal Reserve actions have increased the money supply from its May 1960 level of $137.5 billion to its current level of $141.3 billion. This has increased the availability of funds for investment opportunities. If business bites, and it should, investment expenditures will increase, lowering unemployment, and increasing general business, construction, and real estate activity. The speedup in urban renewal and highway expenditures will directly increase total construction activity.

Thus, the recovery, which has already started, will show itself with increases in business activity within the next 6 months.

FARM VALUES -- Data on farm real estate prices have just become available. From November 1959 to November 1960 farm values per acre increased a slight .3 percent. The range for States was from +4 percent to -7 percent. The increases seem to be in the southern and western States. The decreases are concentrated in the Corn Belt States -- particularly Iowa, where values decreased 7 percent. Nearly 50 percent of the reporters from that area thought that there would be a further decline in prices. This will probably change with the announcement of increased price supports for corn.

Percentage Change of Farm Values per Acre

NOVEMBER 1959 TO NOVEMBER 1960



ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET*

REAL ESTATE ACTIVITY

Number of Voluntary Real Estate Transfers per 10,000 Families

	1959	1960	1961
Ja	82.8	78.2	74.7
F	84.2	77.6	73.5
Mr	81.3	73.9	
Ap	81.7	72.9	
My	81.7	72.9	
Jn	88.5	73.8	
Jl	85.6	75.4	
Ag	83.6	76.0	
S	83.3	78.3	
O	80.1	77.3	
N	80.5	75.4	
D	80.4	74.3	

MORTGAGE ACTIVITY

Number of Mortgages Recorded per 10,000 Families

	1959	1960	1961
Ja	70.6	63.0	62.1
F	72.3	64.0	61.5
Mr	70.5	63.5	
Ap	72.4	63.9	
My	71.4	62.5	
Jn	72.1	63.0	
Jl	72.7	63.8	
Ag	71.7	65.3	
S	70.9	65.6	
O	67.2	63.1	
N	66.6	63.6	
D	65.7	62.8	

REAL ESTATE SELLING PRICE

Index: 1947-49 = 100

	1959	1960	1961
Ja	128.2	130.2	129.2
F	127.8	130.8	
Mr	128.2	130.6	
Ap	128.9	130.1	
My	129.8	129.4	
Jn	129.8	129.6	
Jl	129.4	130.8	
Ag	129.3	130.8	
S	129.3	130.4	
O	130.1	129.4	
N	130.0	129.3	
D	130.2	129.2	

RESIDENTIAL RENTS

Index: 1921-38 = 100

	1959	1960	1961
Ja	125.4	127.3	129.4
F	125.6	127.4	129.6
Mr	125.7	127.5	
Ap	125.9	127.7	
My	125.9	127.9	
Jn	125.1	128.1	
Jl	126.2	128.3	
Ag	126.3	128.5	
S	126.5	128.6	
O	126.7	128.8	
N	126.9	129.2	
D	127.2	129.3	

COST-TWO-STORY SIX-ROOM FRAME HOUSE

(St. Louis)

	1959	1960	1961
Ja	$18,963	$19,607	$19,455
F	18,963	19,609	19,429
Mr	18,989	19,595	19,339
Ap	19,004	19,443	
My	19,004	19,244	
Jn	19,132	19,243	
Jl	19,141	19,240	
Ag	19,157	19,209	
S	19,157	19,152	
O	19,204	19,514	
N	19,518	19,514	
D	19,578	19,465	

AVERAGE INTEREST RATE

Recorded Mortgages in 11 Major Cities of the United States

	1959	1960	1961
Ja	5.717%	6.099%	6.139%
F	5.723	6.156	6.226
Mr	5.714	6.154	
Ap	5.706	6.170	
My	5.690	6.189	
Jn	5.681	6.209	
Jl	5.691	6.124	
Ag	5.720	6.129	
S	5.787	6.141	
O	5.908	6.148	
N	5.974	6.143	
D	6.027	6.191	

*RED LINE SHOWS MONTHLY TREND OF INDICATORS FROM JANUARY 1959 TO THE PRESENT

※

2.1
1.5

1

39.4
39.6

1

39%
26

1